The SPAC Boom: Is the Hype Real?

June 30, 2021

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- Use chat to submit questions
- Yes, you'll get the slides and video
- We're recording, so come back and listen again
- Contact Heather Krejci with questions: hkrejci@angelcapitalassociation.org

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How to Go Public

- IPO: Initial Public Offering - generally sale of company shares to raise money for the company

- Direct Listing: listing of shares and the company does not receive any funds. Allows current shareholders to sell their stake

- Acquisition by or merger with a SPAC

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Technical Definition of a SPAC

- Special Purpose Acquisition Corporation
- A SPAC raises capital through an initial public offering (IPO) for the purpose of acquiring an existing operating company. Subsequently, an operating company can merge with (or be acquired by) the publicly traded SPAC and become a listed company in lieu of executing its own IPO
- An alternative way of going public

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Everybody Loves Stats

- 578 Active SPACs ($177B)
  - 154 pending acquisition ($47B)
  - 424 searching ($130B)
- 284 SPACs on file ($70B)
- Over 100 SPAC IPOs in Feb/Mar. Less than 10 each month since then

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How Does a SPAC Deal Happen?

- High profile investors (or “sponsors”) raise money in an IPO
- Operating companies looking to raise funds, sell or go public
- The SPAC boom took off during Summer 2020

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How Does a SPAC Deal Happen?

- Sponsors work with bankers and contacts in PE/VC community

- Generally, SPACS end up owning a percentage of the company and get meaningful board representation

- Depends on the following:
  - Size of SPAC (most are under $500M)
  - Size of target company
  - Desired ownership/board composition will drive PIPE

- A successful deal is a de-SPAC

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Other SPAC considerations

- SPAC has to file a merger proxy for current shareholders to vote
  - Prevents them from overpaying for a deal
  - Get a good sense of acceptance based on stock price reaction
- Similar to IPOs, SPAC sponsor and management will have lock up periods
- SPAC conducts a full due diligence on the company

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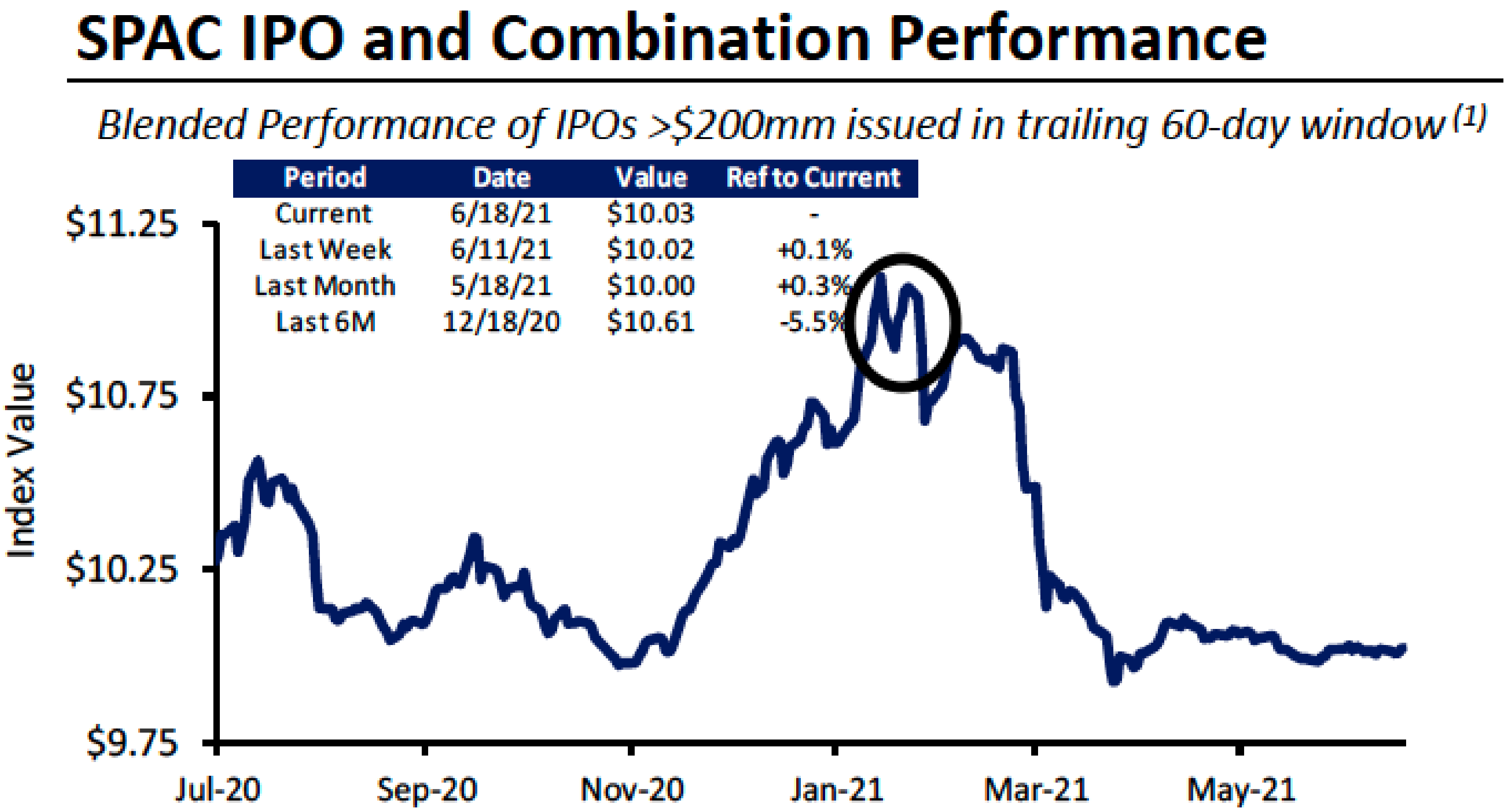
SPAC IPO and Combination Performance



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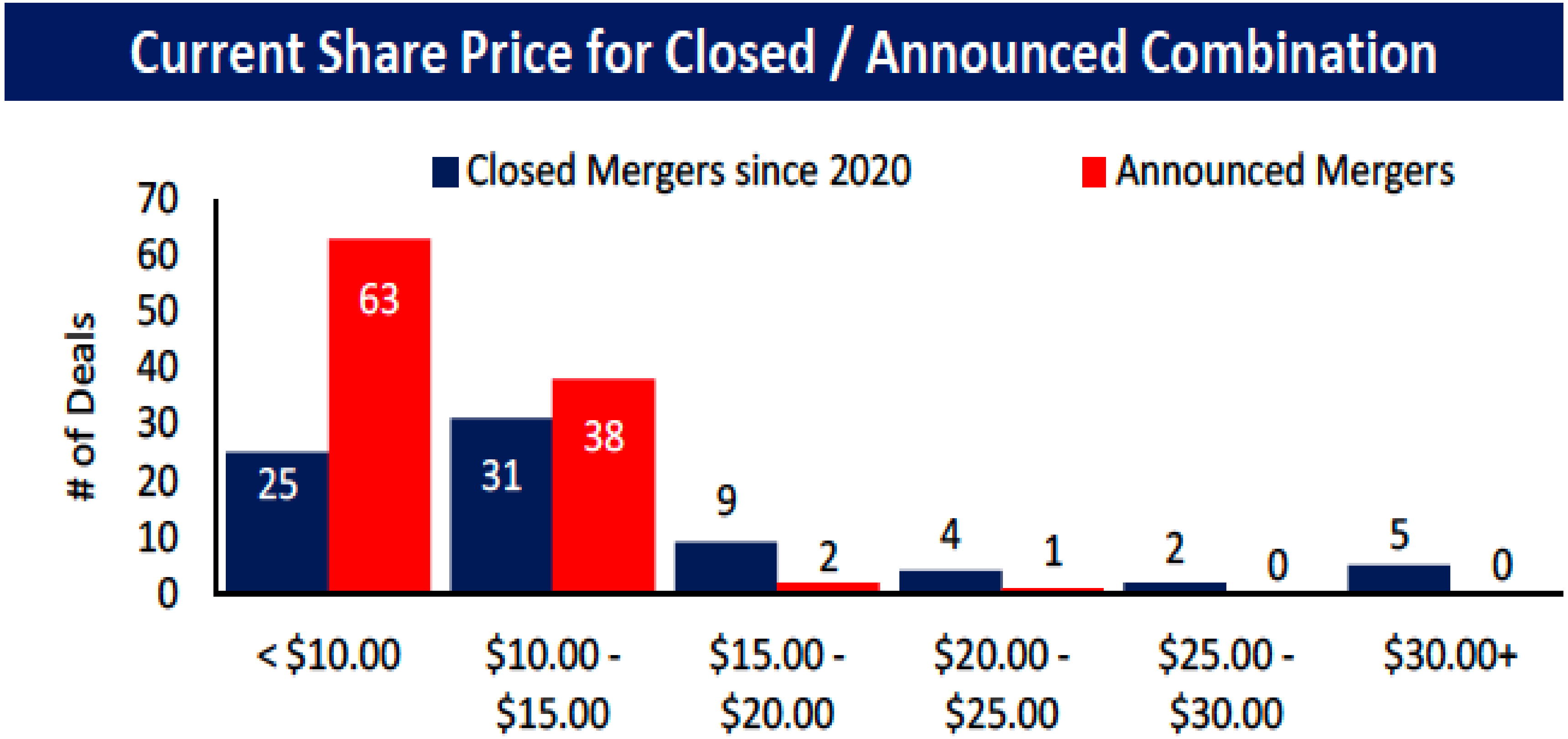
Current Share Price for Closed / Announced Combination



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Economics

- Sponsors end up with warrants and equity – similar to carried interest (in principle, not structure) for private equity or venture capital
- Bankers earn fees on IPO and merger advisory work. Additional fees if there is PIPE (Private Investment in Public Equity) raise included as part of the deal
- Companies receive funds to buy out current shareholders or pay off debt

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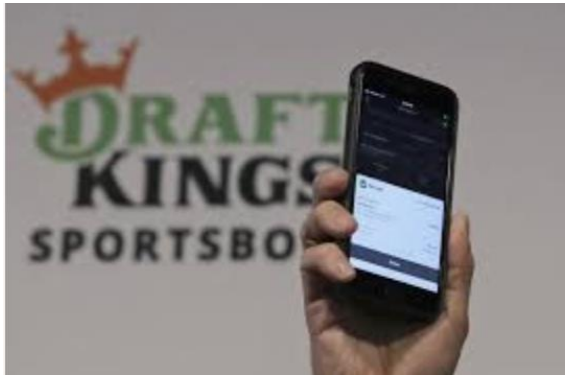
Why should a company go public through a SPAC?

- Faster road to market
- Greater certainty (not subject to pricing and market dynamics)
- Fuller valuation – effectively it is a merger so SPAC is paying a market price for the company
- Ability to get seasoned board representation with a strong SPAC sponsor



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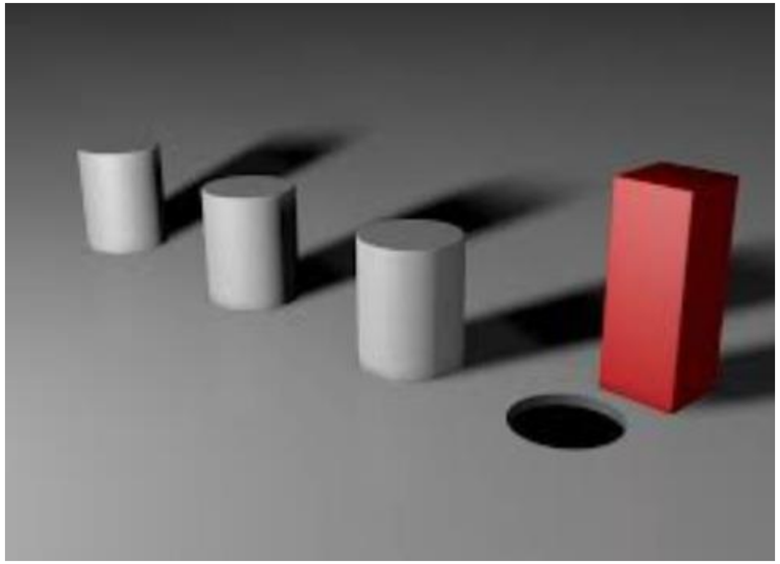
Why shouldn't a company go public via SPAC?

- Public company has higher standards of financial operations and reporting – takes multiple years to be ready for some
- Financial targets are set up front (unlike IPOs where company cannot talk about projections) – increases pressure to deliver
- Easier to go public than stay public



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What Else Do I Need To Know

- 2 year timeline from IPO to signing a deal
  - 400+ plus deals potentially coming to market over next 20-24 months
  - Significant volume/trading - tough to get quorum for merger vote

- Meme stocks
  - Current de-SPAC companies have meaningful short positions
  - Possibly end up on Reddit and other “meme” driven investment boards

- Takes a lot of effort to go public
  - Accounting/reporting function – ability to meet SEC reporting deadlines
  - Three year audited financials
  - Sarbanes-Oxley (SOX) 404 compliant
  - Legal disclosures

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What Does this mean for Angels?

- You have to be “in the room when it happens” - banker and principal level conversations driving deals

- Impact on VC and Angel community
  - Greater focus on companies that are ready to be monetized
  - Could drive earlier exits for Angels as VCs look for more deals
  - ”Softbank” effect – just because someone is willing to pay X, does not mean its worth X

- Barely 12 months into SPAC cycle. Cracks starting to show
  - De-SPAC trading prices
  - Lordstown Motors

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Questions

Upcoming Webinar

- The Rise of Startup Valuations – **July 14**

Angel Capital Association Angel University

ACA Angel University – Fall of 2021

- Fundamentals of Angel Investing - September 14
- Risks in Angel Investing – September 21
- Due Diligence Workshop - September 28
- Term Sheet Basics - October 5
- Valuation Workshop - October 12
- Angel Returns and Portfolio Strategy – October 19
- Advanced Workshop on Capitalization Tables - October 26
- Startup Boards Workshop - November 2
- Angel Exit Strategies - November 9

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